USP GROUP LIMITED
(Incorporated in Singapore)
(Company Registration No.: 200409104W)

RESPONSE TO SGX QUERIES ON FY2017 FULL YEAR RESULTS ANNOUNCEMENT

The Board of Directors of USP Group Limited (the "Company") wishes to announce the following responses to queries raised by Singapore Exchange Securities Trading Limited ("SGX-ST") in its email dated 3 August 2017 on the Full Year Results Announcement released to SGX-ST on 29 July 2017.

SGX-ST's Query 1:

We note that Finance costs of S$1.43 million in FY2017 increased 681% compared to S$0.18 million in FY2016 when total loans and borrowings reduced only from S$43.2 million as at 31 March 2016 to S$42.7 million as at 31 March 2017. What are the reasons for the increase in finance costs?

Company's Response 1

The reason for the increase in finance costs is largely contributed by the two leverage buyouts of Koon Cheng Development Pte Ltd and Supratechnic Pte Ltd which were completed in February and March 2016 respectively. As a result of these two acquisitions, the Group's total loans and borrowings increased from 2.5 million (FY2015) to 43.2 million (FY2016) but only recognised a short period of interest costs. In FY2017, the Group recognised a full year of interest costs. Out of the S$1.43 million, about 60% of it is contributed by the finance cost related for the two acquisitions while the significant part of the remainder is due to financing costs of Supratechnic's trading facilities.

SGX-ST's Query 2:

On page 12, we note that the Company recorded a one-off impairment charge in SG Support Services Pte Ltd of S$2.8 million due to a dispute between USP industrial ("USPI") and the major shareholder of SG Support Services ("SGSS"). This was after a write-back of S$829,319, after USPI and the major shareholder of SGSS reached full and final settlement of the dispute, as announced on 23 March 2017. In the earlier announcements, it is stated that SGSS is 49% owned by the Company, through USPI. Does USPI still own a 49% equity stake in SGSS?

As previously announced on 23 March 2017, upon full and final settlement of the dispute with the major shareholder of SGSS, USPI no longer owns any equity stake in it.

SGX-ST's Query 3:

Please provide a breakdown of impairment of unquoted securities amounting to S$3.655 million disclosed in the statement of cashflows, and reconcile with the amount of investment securities written off of S$2.826 million discussed in the income statement.

The impairment of unquoted securities amounting to S$3.655 million relates solely to the cost of investment in SGSS, net of any provision for impairment made previously. As part of the terms to the global settlement in March 2017, there is a write back of S$829,319 to the impairment made previously as announced in our 3Q FY2017 results. The net investment in securities written off amounting to S$2.826 million is derived by taking S$3.655 million less off a write back of S$829,319.

SGX-ST's Query 4:

Regarding the breakdown of other income on page 2, what are the details under "Others" amounting to S$1.257 million for FY2017?

Rental income	358,183
Government grant	273,948
Write back of amount due to former directors	281,477
Warranty claims	74,669
Labour, technical and reimbursement income	208,066
Others	59,803
	1,256,146

SGX-ST's Query 5:

We note that Trade Payables and Other Payables and accruals reduced from S$9.9 million to S$5.2 million, whereas Costs of Sales increased by S$17 million. Please explain the reasons for the significant decrease in Trade Payables and Other Payables and accruals.

The significant decrease in Trade Payables and Other Payables and accruals was mainly attributable to repayment of payables to Yamaha, the principal supplier of the Group's marine business, amounting to S$1.2 million. Deferred payments reduced by S$1.9 million in March 2017 pursuant to the expiry of the 1st year of warranty according to the Supratechnic sales and purchase agreement between the Group and the previous owners of Supratechnic. S$1.3 million was paid to a former director of a subsidiary, Biofuel Research Pte Ltd, pursuant to a settlement agreement.

BY ORDER OF THE BOARD

Li Hua
(Executive Chairman and Chief Executive Officer)
6 August 2017